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SIPDIS

SENSITIVE
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DEPARTMENT PASS TO USTR (AGAMA)
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SUBJECT: NIGERIA: INDUSTRY HURTING IN THE NORTH

REF: A. ABUJA 2059
[1](#)B. ABUJA 1582

SENSITIVE BUT UNCLASSIFIED - PROTECT ACCORDINGLY

[1](#)1. (SBU) Summary. Northern business leaders were unanimous in voicing their displeasure with current economic conditions in the region. The supply of electricity is epileptic, requiring expensive generators run on expensive fuel to operate businesses. An energy expert provided a dire overview of the state of the electric power supplies. In order for a company to operate it must build and maintain its own infrastructure due to years of neglect from federal and state governments. Petrochemical, plastics and agriculture sectors were cited to Emboffs as areas for potential growth. Businessmen are cautiously optimistic that President Yar'adua will address their concerns. End Summary.

[1](#)2. (U) Embassy Abuja hosted Iftar dinners, to mark the breaking of the Muslim Ramadan fast, in Kaduna and Kano on October 2 and 3. At the dinners and other meetings Emboffs met with a wide range of northern business leaders.

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What Happened to Electricity

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[1](#)3. (U) In a conversation with a well-connected local business and energy consultant, Emboffs were told that in 1999 the Nigeria generated only 1,600 Megawatts (MW) of electricity compared to 5,000 MW in 1990. Former President Obasanjo assured the public in 1999 that electricity was a priority of his administration. The GON invested \$2.1 billion in the subsequent three years to rehabilitate its power generation, transmission and distribution infrastructure. In addition, in 2001 the GON invited the private sector to construct ten independent power plants (IPPs).

[1](#)4. (U) By mid 2006, the GON successfully completed the Shiroro (Niger State) - Abuja line, adding 1,462 MW from power generation plants at Geregu (Kogi State), Omotosho (Ondo State), Papalanto (Ogun State), Alaoji (Abia State) and another 968 MW from five other IPPs. Despite these efforts, it was estimated that in 2001 power generating capacity was 4,000 MW and actual generation 2,500 MW, with an actual distribution of 2,000 MW. At the end of 2006 all three figures dropped - power generating capacity was 2,800 MW, actual generation 2,000 MW and actual distribution 1,800 MW. In a population of 130 million, 50 million citizens have no access to

power, 80 million citizens have access to interrupted power and no one access to uninterrupted power from the national grid.

15. (SBU) The energy consultant contended that the failure of the GON to provide adequate, uninterrupted and reliable electricity was the direct result of the failure to fully privatize the Power Holding Company of Nigeria (PHCN). His solution was for the PHCN to be privatized and the price of electricity deregulated. Based on figures provided by the consultant, PHCN charges are a fraction of international rates, and due to subsidization the utility company cannot generate revenue to operate efficiently.

Alternative Sources of Electric Power

16. (SBU) Over the past 40 years, unreliable energy has compelled the public and private sectors to turn to alternative power supply in the form of standby power generators. An estimated 14,000 generators were imported in 2005 alone at a value of \$400 million. Industry contacts suggest that at least 600,000 generators operate in Nigeria at a total value of \$9 billion with a combined generating capacity of 19,200 MW - six times national supply of electricity available via the national grid. It is estimated that these standby generators, operating at an average of 8 hours per day and consuming eight liters of diesel per hour, consume 13.8 billion liters annually valued at \$10 billion. Their maintenance costs add a further \$1.2 billion.

17. (SBU) Businessmen told us that the losses to industry reach the billions of dollars for continuous production interruptions leading to downtime, idle staff, alternative energy costs and opportunity losses to the Nigerian manufacturing industry. The energy consultant calculated that if 80 million Nigerians currently

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receiving only interrupted electricity could receive an uninterrupted supply there would potentially be a 31 GDP increase.

How the Rural Population Suffers Without Electricity

18. (U) Over 70 of Nigerians rely on agriculture for their income and welfare. Agriculture contributes 40 of the GDP. Since 1999, of 774 local government areas (LGAs) nearly all of them - 717 - have been connected to the national power grid. Despite this progress, the same number of MW is shared leading to increased outages. It is estimated that rural areas experience more than 70% down time in electricity, hindering basic necessities such as drawing water from local wells, simple irrigation systems, and milling seeds. Rural, isolated areas are unable to take advantage of remote communications because mobile phones and computers cannot be recharged.

Manufacturers Need Help

19. (SBU) During a meeting with Manufacturers Association of Nigeria (MAN) President Bashir Borodo, he agreed that the main problem his members face is the shortage and unreliability of electric power. He said electricity availability had declined in the last five years. As a result, companies are concentrating on establishing private sources of electricity. The MAN chief lamented how poor macroeconomic policies and high GON deficits for most of the period since 1993 have harmed Nigerian manufacturers. Borodo said it remains difficult for MAN members to obtain needed replacement machinery or spare parts because of previous or existing government policies.

Manufacturers Take Independent Action

110. (SBU) Returning to Nigeria's chronic electricity problems, Borodo said domestic manufacturers have no confidence whatsoever that the GON will address successfully the power issue, so his constituents are concentrating on establishing private sources of electricity. The MAN chief noted that at many companies in Nigeria, employees spend the entire day at their workplace unable to do any

work because of a lack of electricity. He commented on the "psychological cost" of repeated power outages and said outages occurring in the middle of domestic manufacturers' decreasing production is particularly ruinous.

¶11. (SBU) Borodo said recent laws streamlining the electricity sector will aid Nigerians in establishing private electricity companies. He noted that MAN is negotiating with a UK and South African company for development of a MAN power plant in the Lagos area. The Lagos area has access to natural gas and MAN members are trying to take advantage of that. He complained that MAN members operating natural gas powered generators have been affected by vandalism to pipelines yet the pipelines transporting natural gas to Bonny LNG for export curiously have been unaffected. Another complaint was the GON hiking the natural gas price per cubic meter 15 cents in 2007 without notice. Borodo maintained the industry is willing to pay higher prices as long as supply is guaranteed, which it is not.

Manufacturing Challenges

¶12. (SBU) Over and over we heard from businessmen lamenting that in order to manufacture, you must provide for everything yourself - build the factory, buy the machines, dig the water borehole, construct the road leading to your factory, pay for connection to the national electricity grid, then purchase generators and pay the 90 naira per liter fuel costs and maintain the generators that will run nearly 100% of the time. All the while, the company must pay multiple taxes for services that do not exist. The manufacturing industry also suffers from damage to industrial machinery and basic equipment from power surges, ranging from electric motors, pumps, compressors and electric lights. Large sums must be invested in power stabilizers, voltage regulators and uninterrupted power supply units to protect equipment.

¶13. (SBU) Industry representatives expressed unhappiness with the

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lack of access to credit and when credit is available interest rates range from 20 to 30 . Lebanese industrialists who have been in the region for as long as 100 years are divesting and leaving the region due to the poor economic conditions. Experts contend that in northern Nigeria only 20 of industrial capacity is used. The deterioration of infrastructure has hurt businesses that rely on transportation. Several companies complained about the high cost to ship and receive products to and from Lagos due to deteriorating roads, increased highway banditry and unreliability of old trucks. The railway is dormant and air shipments are rare and expensive to Kaduna and Kano.

¶14. (SBU) Borodo reported that in the last 20 years, the petrochemical and plastics sector has had the fastest growth rate, particularly in Lagos, Aba and Kano. When asked why the GON has been unsupportive of industry, Borodo responded that GON officials view manufacturers as "thieves" only interested in subsidies. He acknowledged that some businessmen have abused government concessions.

Textile Industry Hard Hit

¶15. (SBU) Another major issue touched upon by industry was smuggled goods. Borodo said he has seen a huge influx of smuggled cheap, substandard Chinese goods into Nigeria. He commented that the textile industry has been hit hardest, even though there is a total ban on foreign textile importation. In 1982, 800,000 workers were employed in 72 textile factories, and by 2007 less than 300,000 workers labored in 12 textile factories. In September, United Nigeria Textile, the last textile firm operating in Kaduna, closed with the loss of 4,000 jobs.

¶16. (SBU) At night, trucks cross Nigeria's porous borders and unload banned goods from China into Kano and other cities. Borodo contended that the authorities were fully aware of the actors involved but chose not to punish them.

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Comment

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¶17. (SBU) The lack of power remains the biggest hurdle to industry with transportation and infrastructure next in line. There was general agreement among industry experts that agriculture was a way forward and that a good policy environment and GON/donor assistance can lead to rapid economic development in the north. Yar'adua's administration has said that power is a priority and -- despite bitter experiences -- industry leaders in the north were generally optimistic that the President would follow through.

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